



Weekly Market Update

Hosted by:

James Hotchkiss

Director, Member Strategy and Solutions

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FHLB  Chicago
Federal Home Loan Bank of Chicago

Contacts



James Hotchkiss

Director, Member Strategy and Solutions

jhotchkissjr@fhlbc.com

312-565-5691

Twitter: [@econ_james_](https://twitter.com/econ_james_)



Melissa Deven

Director, Member Strategy and Solutions

mdeven@fhlbc.com

312-552-2717

Twitter: [@econ_melissa_](https://twitter.com/econ_melissa_)

Discussion Topics

- Weekly Interest Rate Comparisons
- Economic Data Releases
- Small Business Lending Survey
- Senior Loan Officer Survey
- Preview of the Coming Week
- Q and A

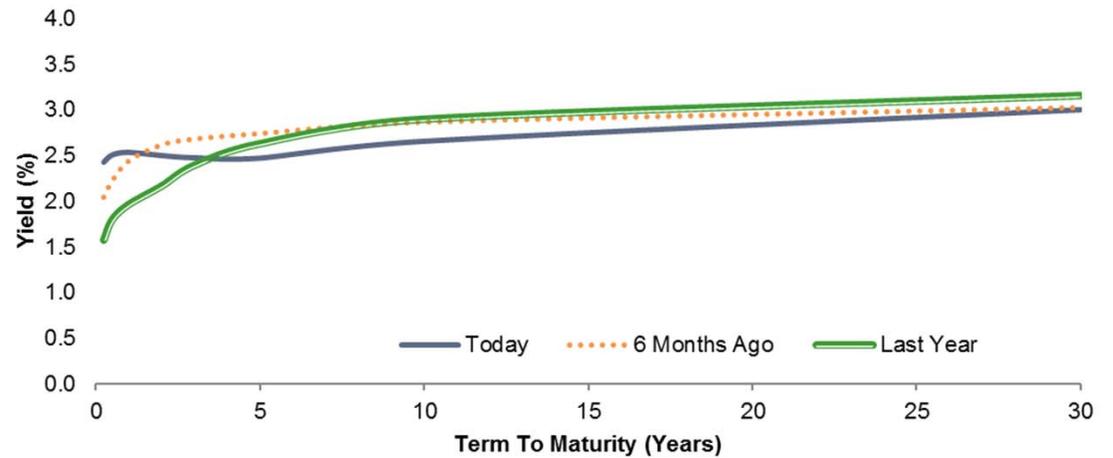
Weekly Interest Rate Movements

For the Week Ending 2/14/2019

U.S. Treasury Yields

	2/14/19	2/7/19
3mo	2.42%	2.40%
2yr	2.50%	2.49%
5yr	2.47%	2.46%
10yr	2.66%	2.66%

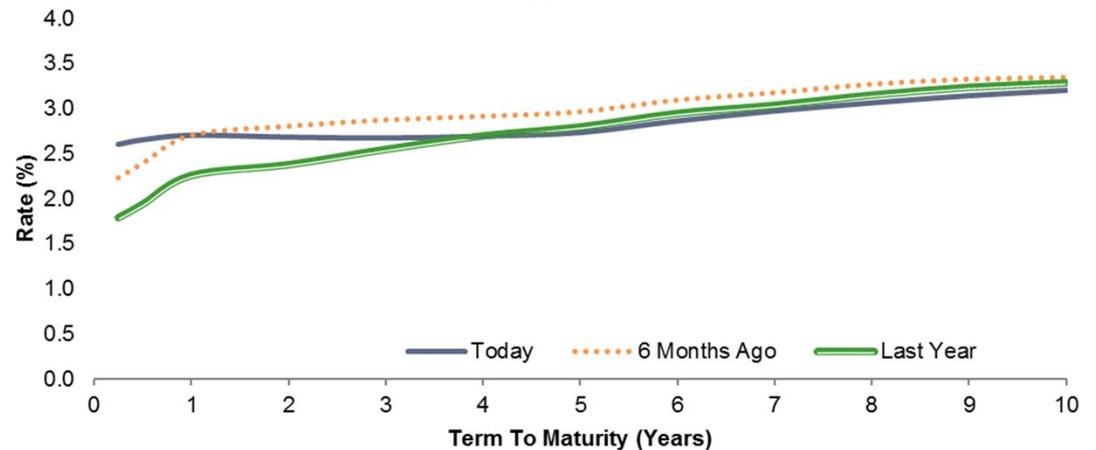
U.S. Treasury Yield Curve



FHLBank Chicago Advance Rates

	2/14/19	2/7/19
3mo	2.60%	2.59%
2yr	2.68%	2.69%
5yr	2.73%	2.76%
10yr	3.20%	3.22%

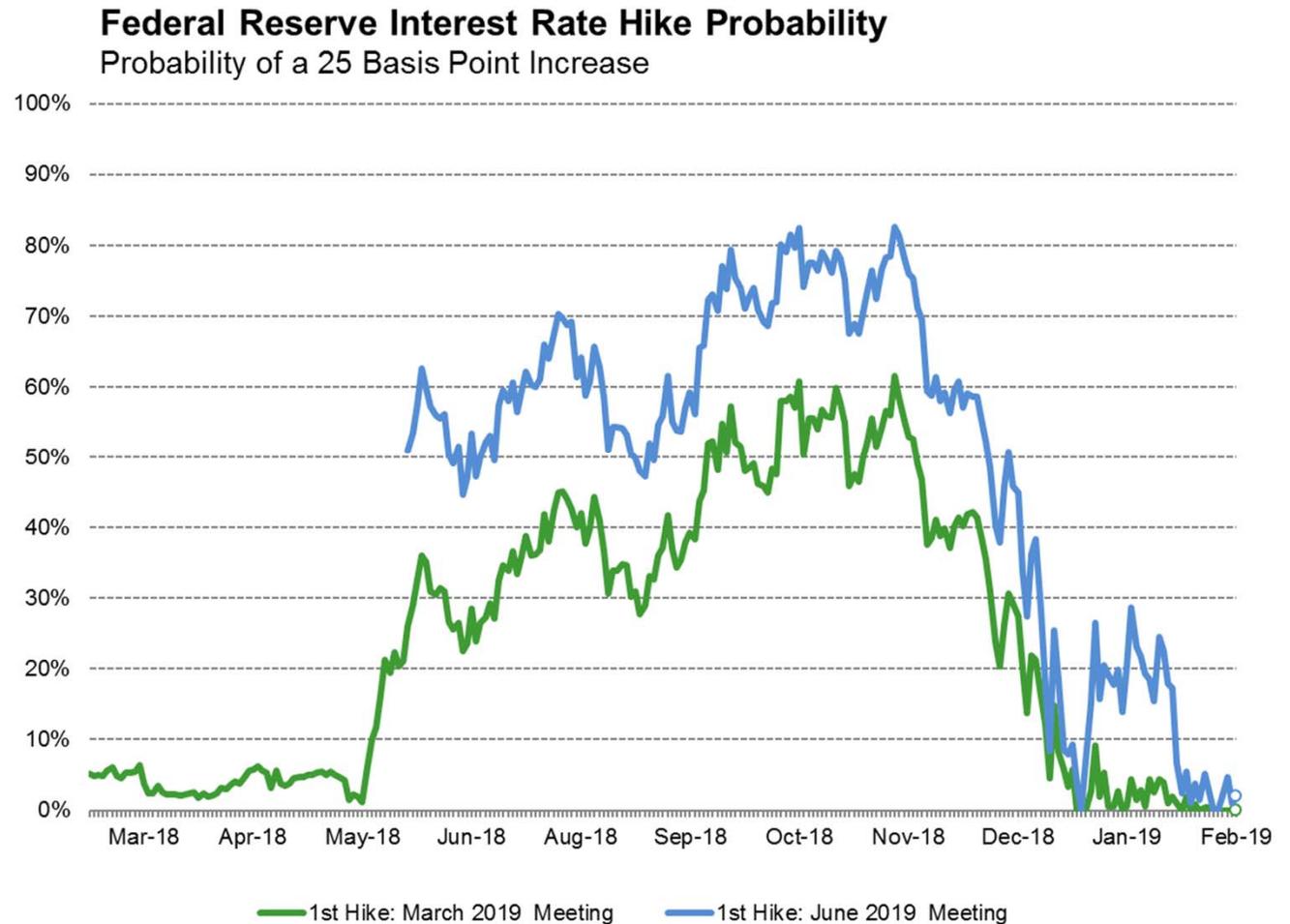
FHLBank Chicago Advance Rates



Federal Reserve Interest Rate Probability

Following the fourth rate hike of 2018 in December, the market implied probability of a rate hike in March 2019 continues to drop and reached 0.00% as of February 14.

If rates do not increase in March, the market implied probability of the first rate hike occurring in June 2019 rises to only 1.97%.



Source: Bloomberg

U.S. Economic Data Releases

For the Week Ending 2/14/2019

Producer Price Index (PPI) Final Demand

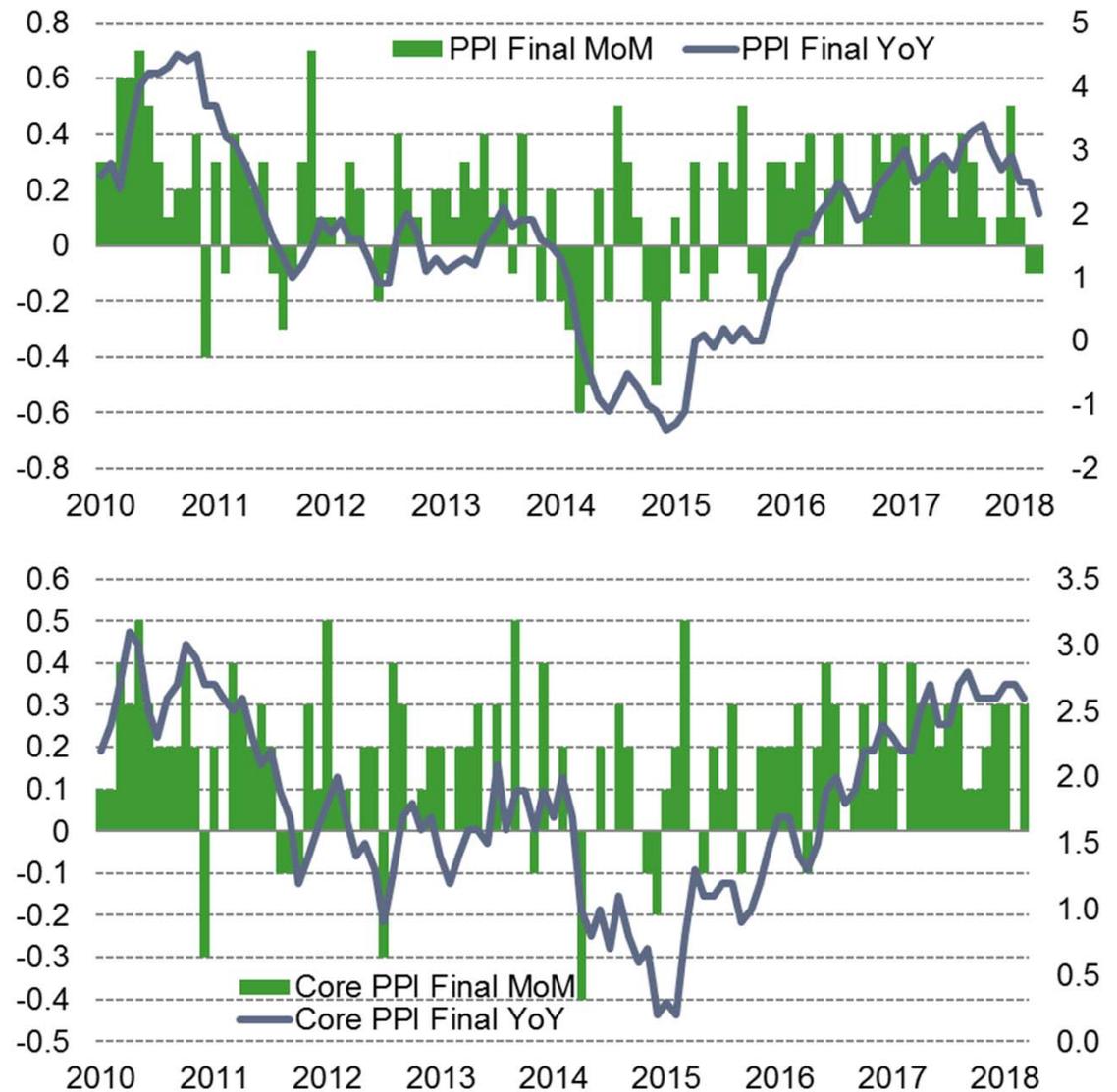
January: -0.1% vs. December: -0.1%

- Decreased 0.1% in January. Within goods, food prices and energy prices declined 1.7% and 3.8%, respectively. Services prices however rose 0.3%. Within services, trade services rose 0.8%, and transportation increased 0.5%. Final demand remains 2.0% higher than one year ago.

Core PPI Final Demand

January: 0.3% vs. December: 0.0%

- Excluding food and energy services, prices rose 0.3% in January. The core index is up 2.5% year-over-year compared to 2.8% last month.



Source: Bureau of Labor Statistics

U.S. Economic Data Releases

For the Week Ending 2/14/2019

Consumer Price Index (CPI)

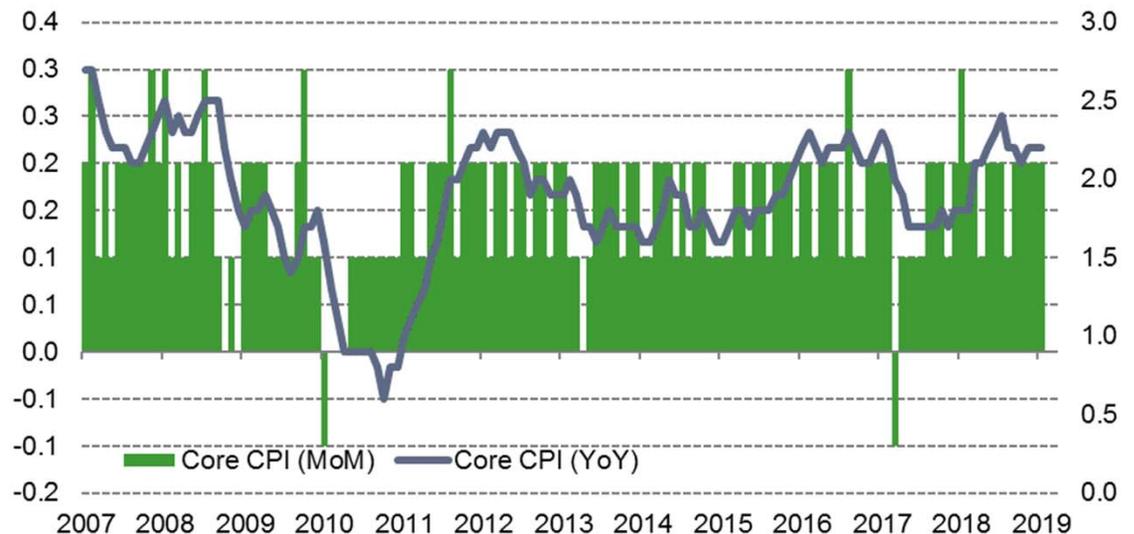
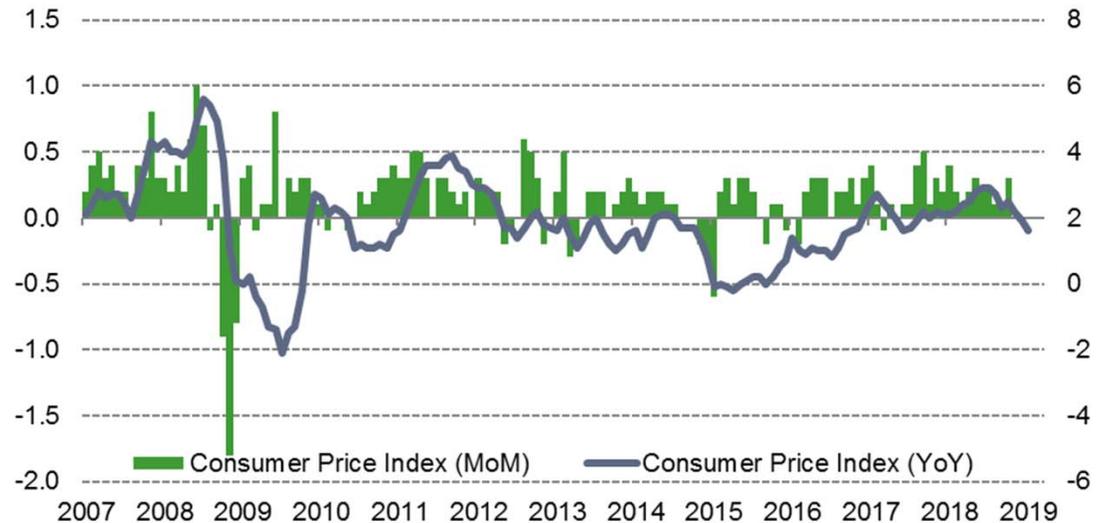
January: 0.0% vs. December: 0.0%

- Remained flat in January despite expectations of an increase. As a result, CPI declined four-tenths of a percent to 1.6% on a year-over-year basis. From the prior month, food prices increased 0.2% but were offset by energy prices falling 3.1%.

Core CPI

January: 0.2% vs. December: 0.2%

- Excluding food and energy, the index increased 0.2% from the prior month and remains 2.2% higher year-over-year. Supporting the increase this month, shelter prices rose 0.3%, offsetting transportation services falling 0.2%.



Source: Bureau of Labor Statistics

U.S. Economic Data Releases

For the Week Ending 2/14/2019

Small Business Optimism

January: 101.2 vs. December: 104.4

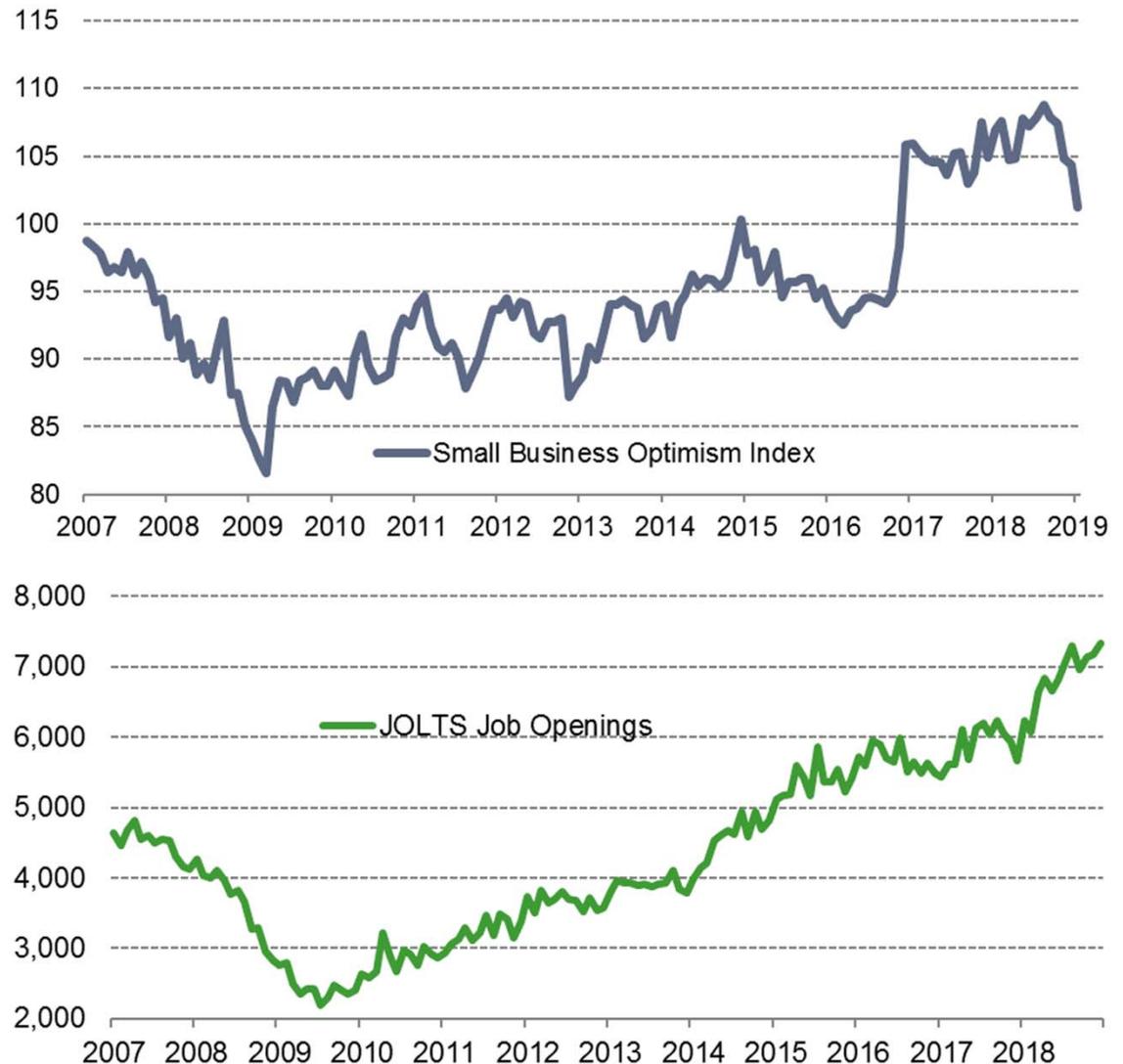
- Fell to 101.2 in January, the lowest level since 2016. The percentage of small firms expecting the economy to improve dropped ten points. Elsewhere in the report, 88% of small business owners hiring reported finding few or no qualified applicants.

JOLTS Job Openings

December: 7.335M vs. November: 7.116M

- Rose by 219K to 7.335M. The prior month was upwardly revised from 6.888M to 7.116M. The number of hires edged higher to 5.907M, while separations were little changed at 5.545M. Job openings were primarily positive across regions, with the Midwest as the only region to show a decline.

Source: NFIB, Bureau of Labor Statistics



U.S. Economic Data Releases

For the Week Ending 2/14/2019

Retail Sales

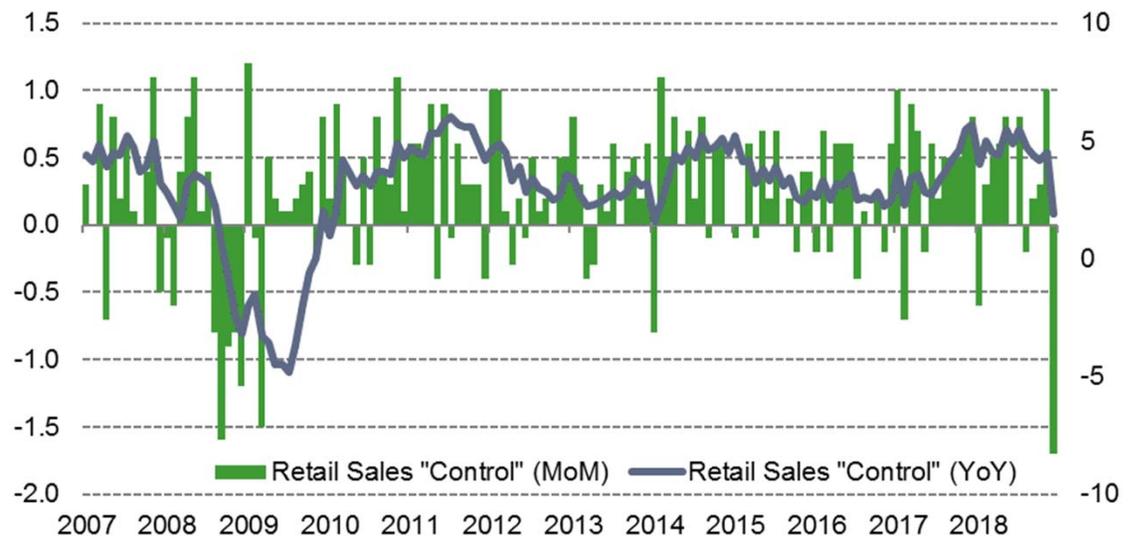
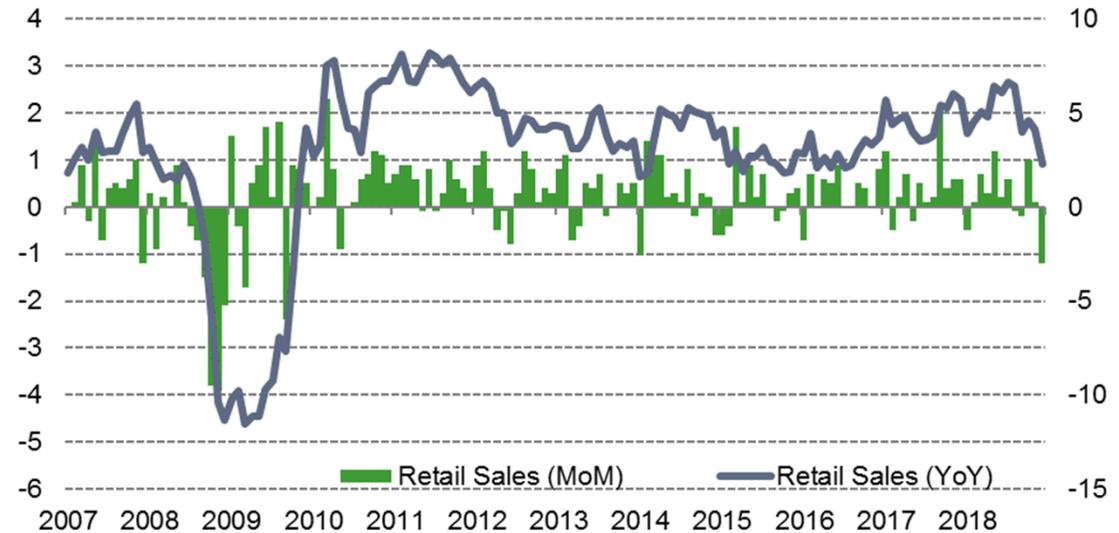
December: -1.2% vs. November: 0.1%

- Unexpectedly fell 1.2% in December, the sharpest monthly decline since September 2009. Weighing on the month, sales at gasoline stations dropped 5.1%, and sales at non-store retailers fell 3.9%. Partially offsetting the decline, motor vehicle sales and building material sales were the only businesses to increase.

Retail Sales Control Group

December: -1.7% vs. November: 1.0%

- Fell 1.7% in December, the largest monthly decline in over ten years. The prior month was upwardly revised from 0.9% to 1.0%.



Source: U.S. Census Bureau

U.S. Economic Data Releases

For the Week Ending 2/14/2019

Initial Jobless Claims

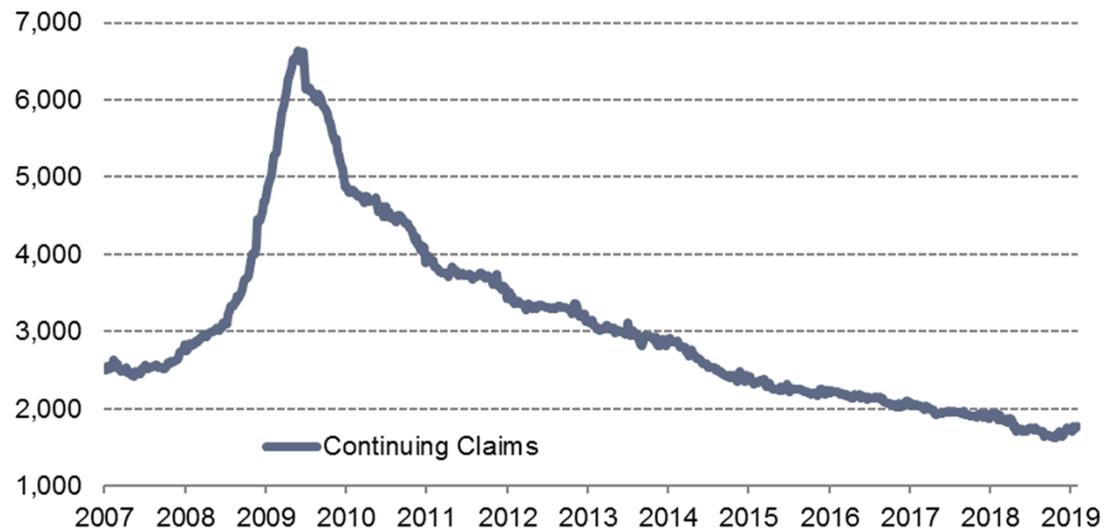
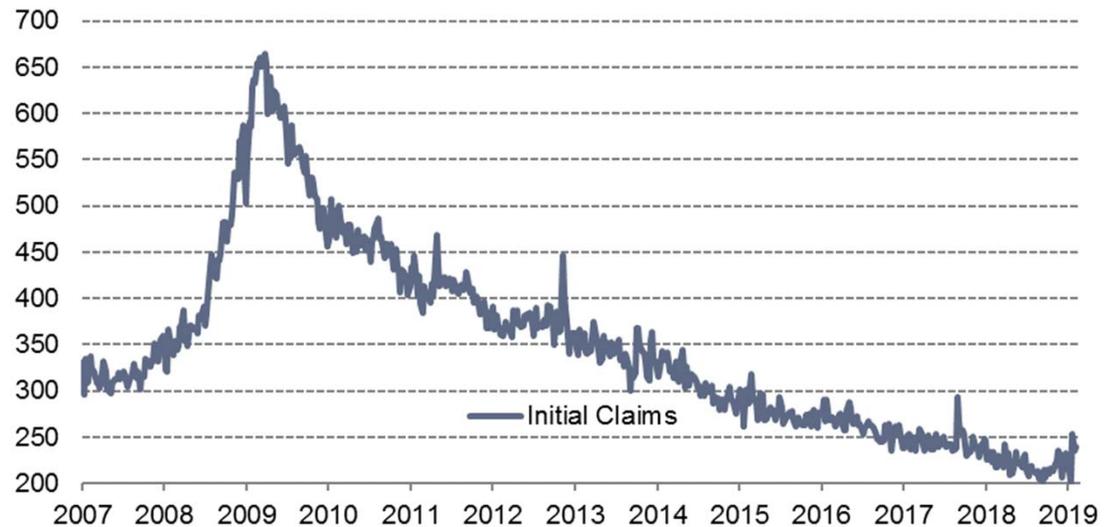
Feb 9: 239K vs. Feb 2: 235K

- Increased by 4K to 239K in the week ending February 9. The previous week was upwardly revised by 1K to 235K. As a result, the four-week moving average increased by 6.75K to 231.75K, which is the highest level for this average since January 2018.

Continuing Claims

Feb 2: 1,773K vs. Jan 26: 1,736K

- Increased by 37K to 1.773M in the week ending February 2. The prior week was unrevised at 1.736M. As a result, the four-week moving average rose by 9K to 1.750M. The insured unemployment rate remained unchanged at 1.2%.



Source: Department of Labor

Small Business Lending Survey

- The Small Business Lending Survey is a quarterly collection of quantitative and qualitative information around credit market conditions for banks lending to small businesses.
- The survey includes about 400 domestically chartered commercial banks with 100 – 200 respondents each quarter.
- The survey includes data collected around commercial & industrial (C&I) loans. A small business loan is defined as a loan made to a firm with \$5M or less in annual gross revenue.
- In Q3 2018, small business C&I lending increased, with growth driven by large institutions. Credit standards remained relatively unchanged with respondents indicating a tightening of lending terms. Interest rates continued to rise.

Source: Kansas City Federal Reserve

Small Business Lending Survey

C&I Loan Balances

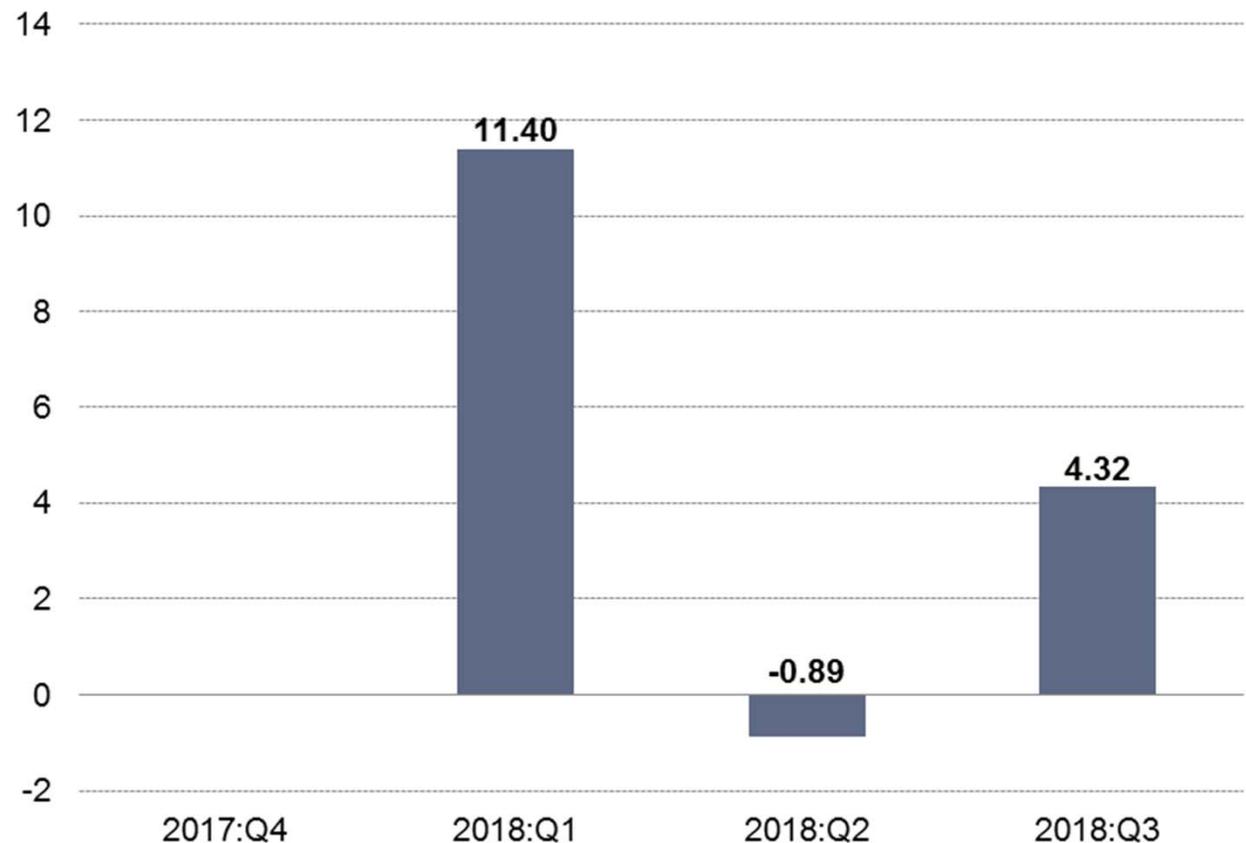
Loan balances include fixed- and variable-rate loans, as well as, outstanding loans under commitment (such as lines of credit).

Commercial and industrial loan balances increased 4.32% in Q3 2018, compared to falling 0.89% the prior quarter.

Fixed-rate loans and variable-rate commitments make up the largest outstanding amounts of C&I loans.

C&I Loan Balances

Quarter-over-Quarter Percent Change



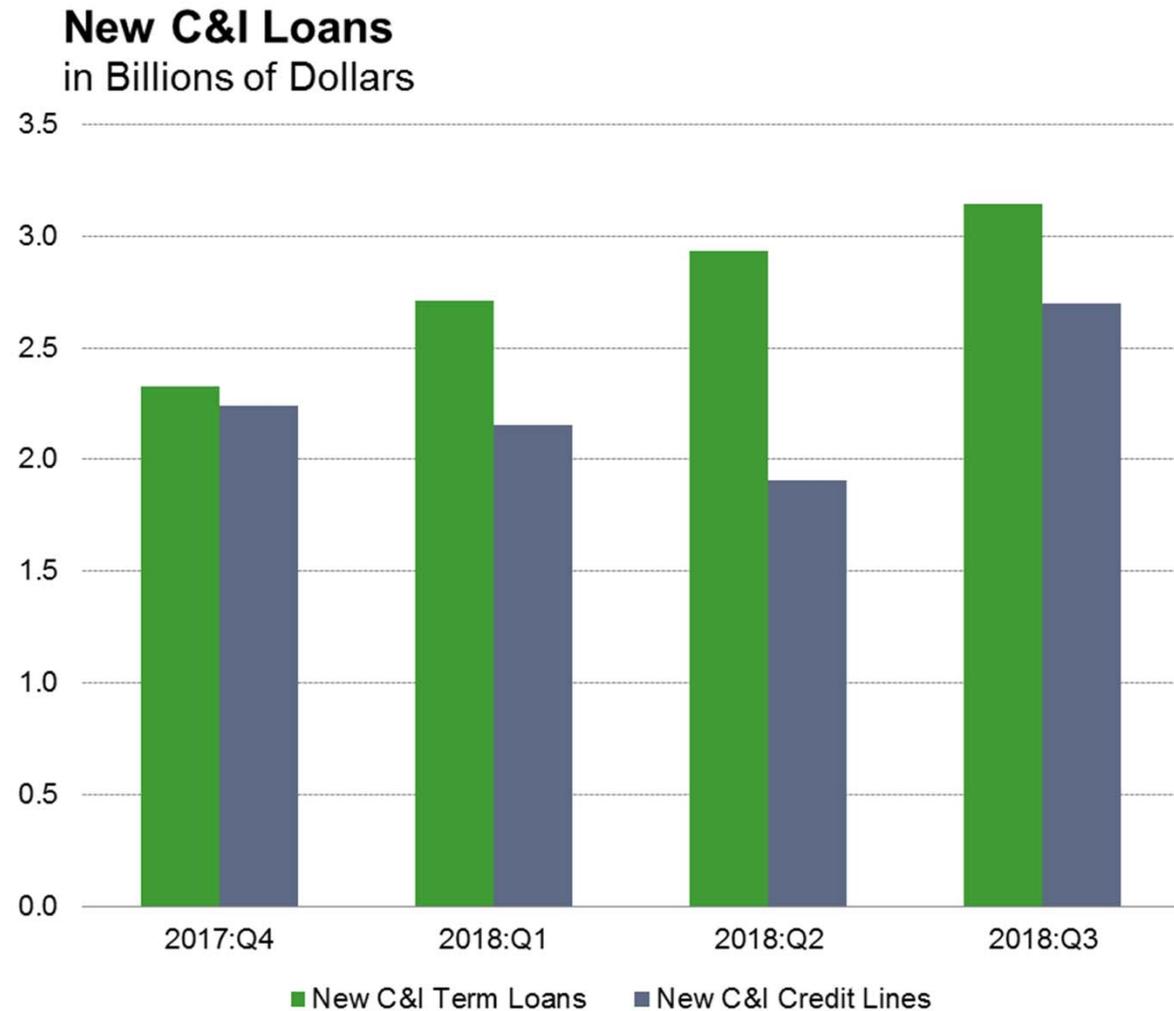
Source: Kansas City Federal Reserve

Small Business Lending Survey

New C&I Loans

New C&I credit lines have jumped significantly since Q2 2018, increasing 42% quarter-over-quarter.

Loan amounts continue to rise steadily and increased 7% over the same time period.



Source: Kansas City Federal Reserve

Small Business Lending Survey

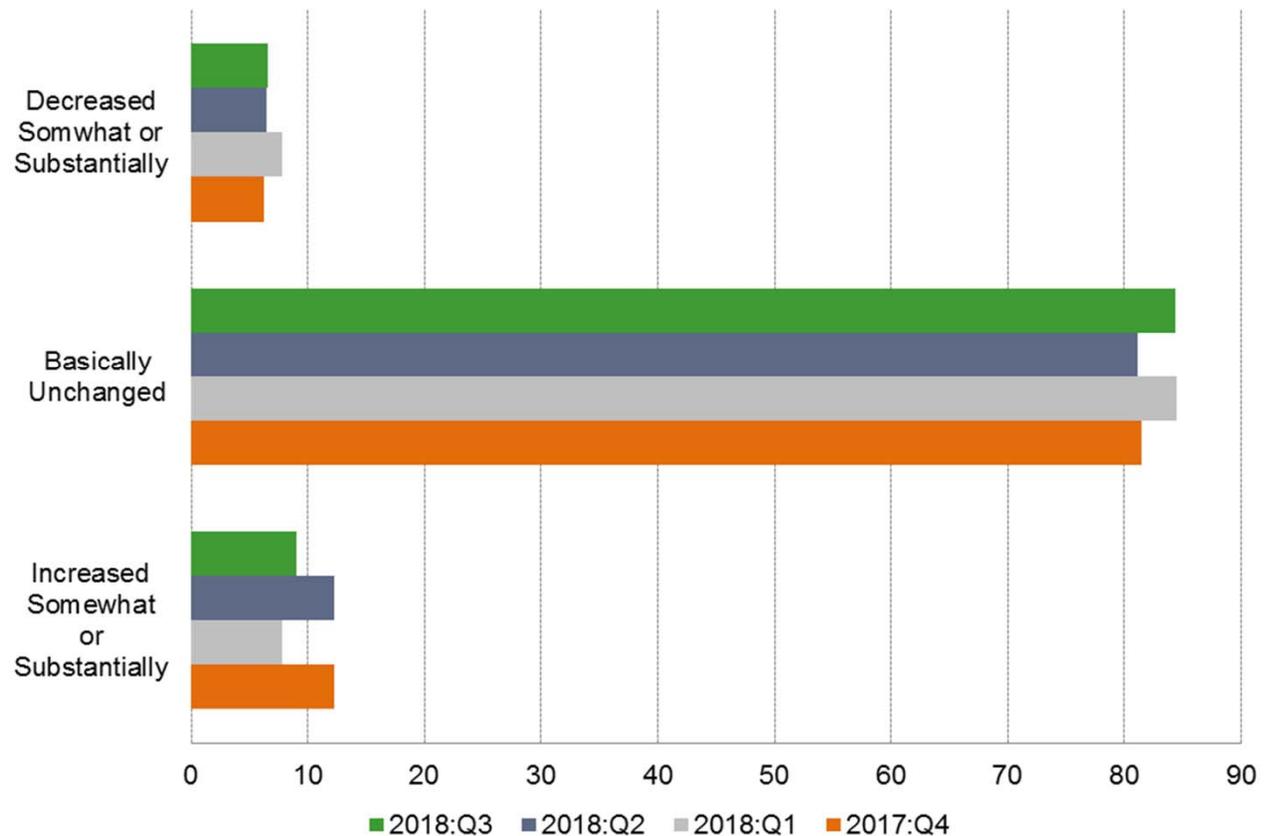
Credit Line Usage

Credit line usage was basically unchanged in Q3 2018.

Slightly more banks reported a decrease in credit line usage and slightly fewer respondents reported an increase in usage.

Total credit line usage by customers edged lower this quarter to 37.8%.

Banks Reporting a Change in Credit Line Usage
in Percent



Source: Kansas City Federal Reserve

Small Business Lending Survey

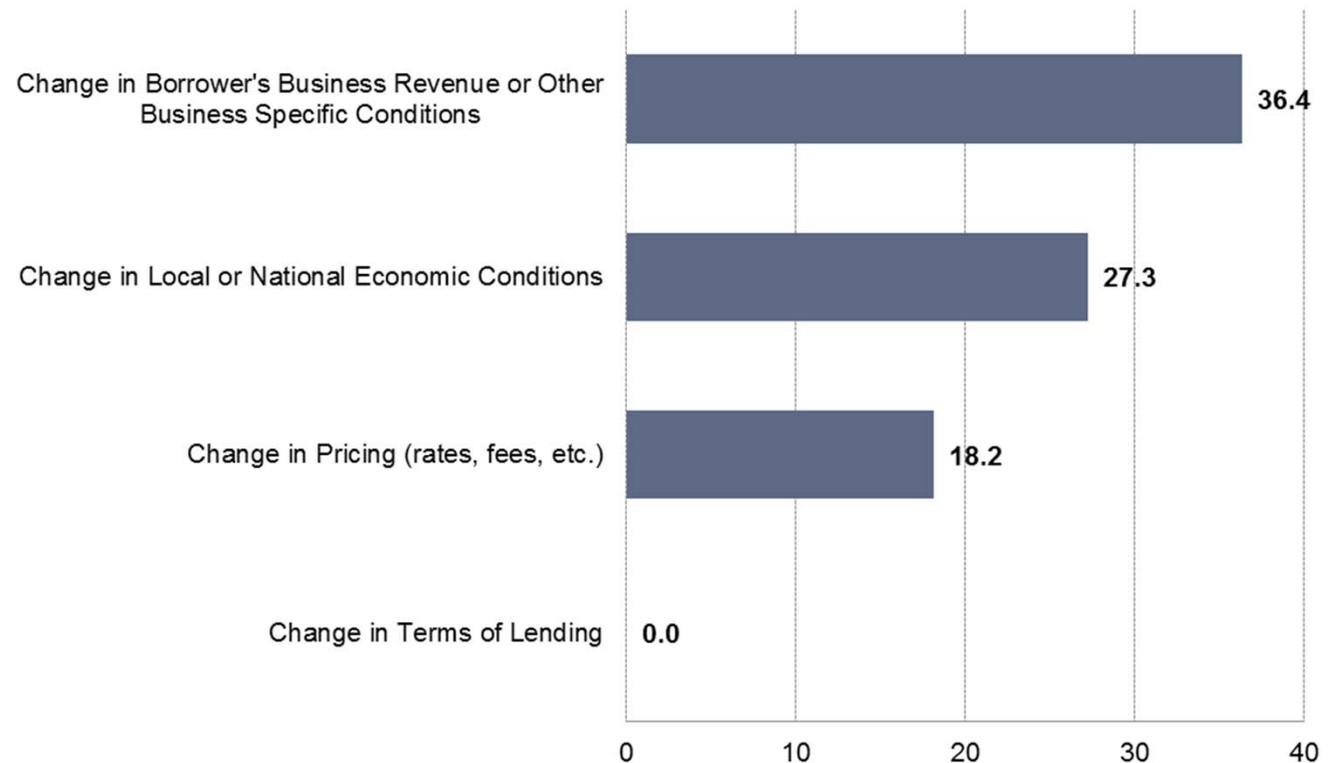
Reasons for Increasing Credit Line Usage

A change in a borrower's business revenue was the number one reason for an increase in credit line usage.

A change in economic conditions was next, followed by a change in pricing.

A change in terms of lending was not rated as "very important" by any respondents in Q3 2018.

Percentage of Respondents Reporting Reason for Increased Credit Line Usage is "Very Important"



Source: Kansas City Federal Reserve

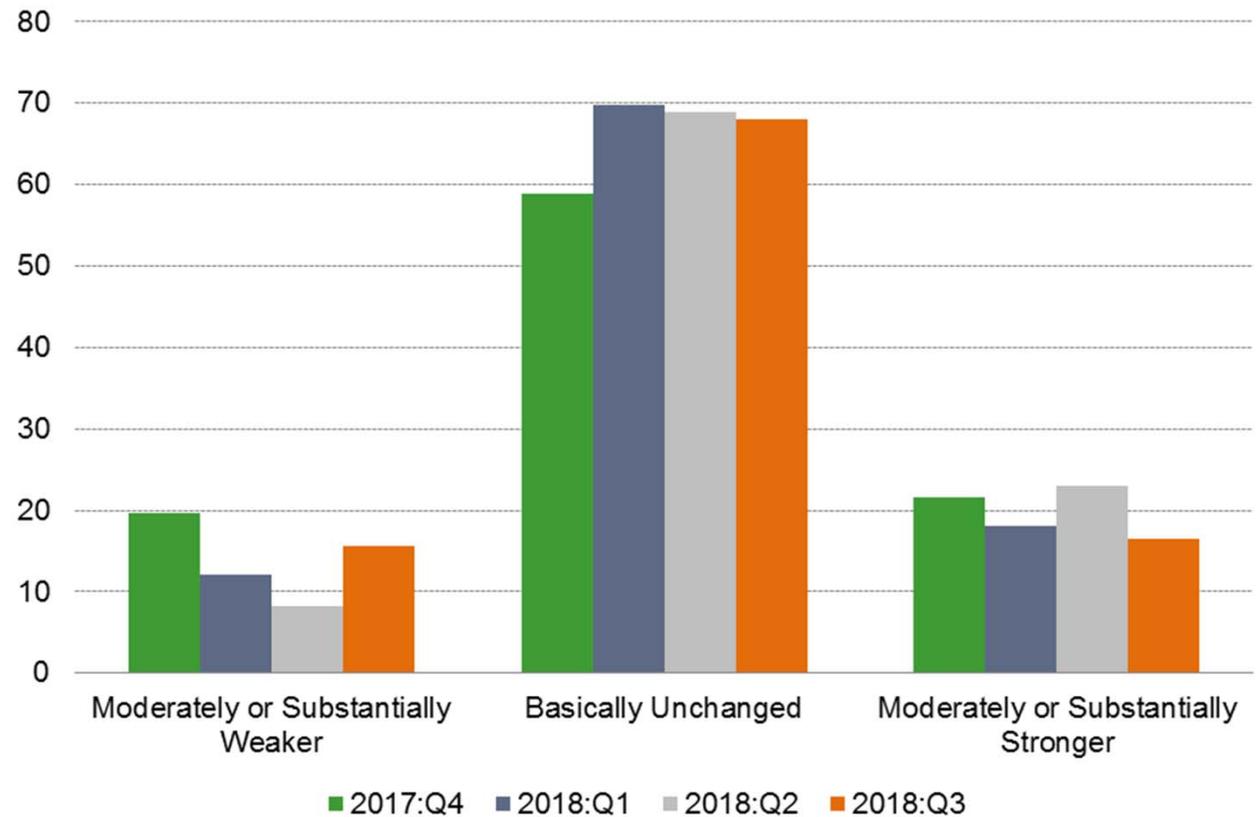
Small Business Lending Survey

C&I Loan Demand

C&I loan demand weakened modestly in the third quarter. Overall, about 69% of respondents indicated no change in demand for small business C&I loans.

However, the percent of respondents reporting weaker demand rose from 8.2% in Q2 to 15.6% in Q3, while the percent of respondents reporting stronger demand fell from 23.0% to 16.4% quarter-over-quarter.

Respondents Reporting a Change in C&I Loan Demand
in Percent



Source: Kansas City Federal Reserve

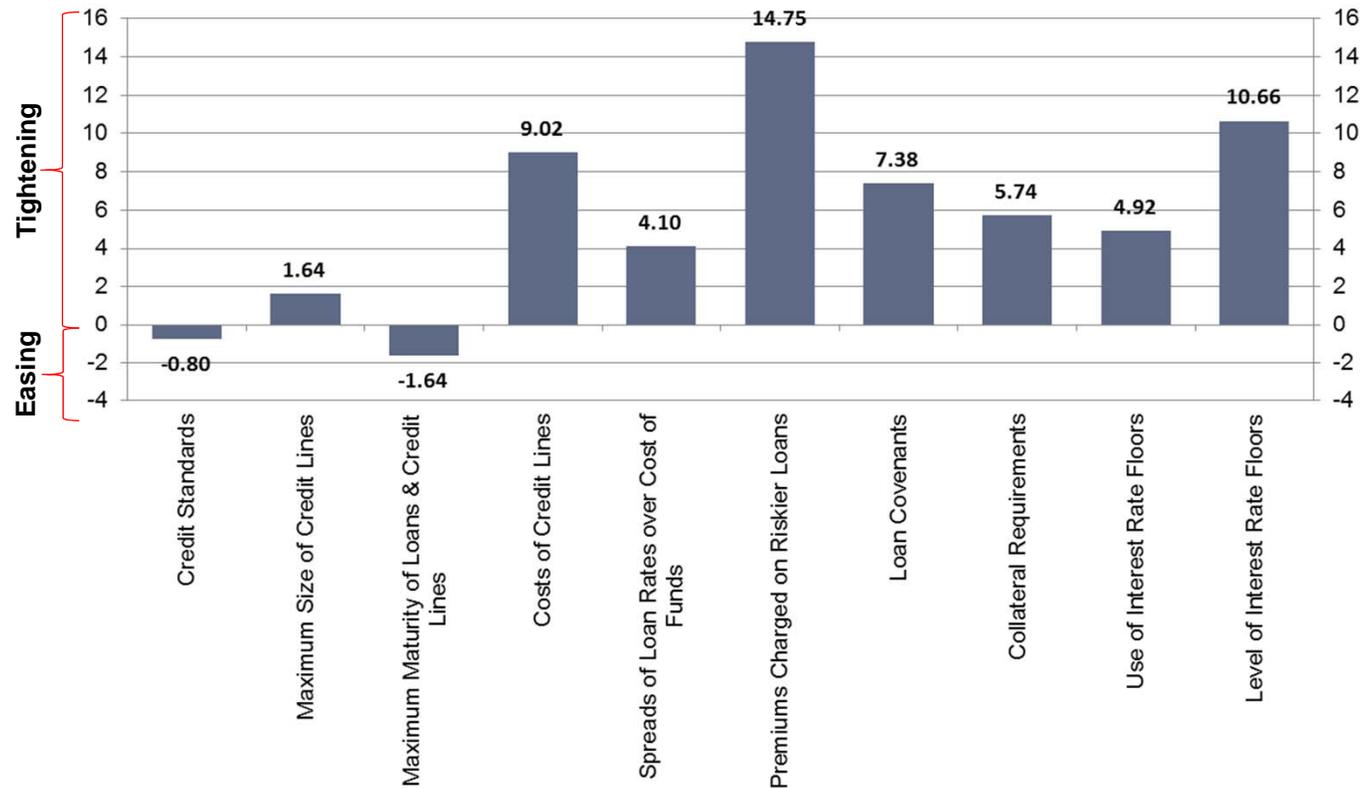
Small Business Lending Survey

Banks Tighten Most Credit Terms

As overall credit standards tightened modestly in Q3 2018, components showed tightening among most loan terms and conditions.

Premiums charged on riskier loans, the level of interest rate floors, and costs of credit lines showed the most tightening.

Net Difference of Respondents Reporting Tightening vs. Easing Credit Terms
in Percent



Source: Kansas City Federal Reserve

Senior Loan Officer Survey

- The Federal Reserve's Senior Loan Officer Survey reports the changes in the standards and terms on, and demand for, banks' loans to businesses and households over the last three months.
- The survey is a collection of data from 72 domestic banks and 22 U.S. branches and agencies of foreign banks.
- In Q3 2018, lending standards for commercial and industrial (C&I) loans eased and remained relatively unchanged in Q4 2018.
- Banks reported weaker demand in both Q3 and Q4 2018.
- The survey this quarter included a set of special questions regarding expectations for lending policies and loan performance over 2019. Banks expected standards to tighten for business loans, demand to weaken, and loan performance to deteriorate.

Source: Federal Reserve Board of Governors

Senior Loan Officer Survey

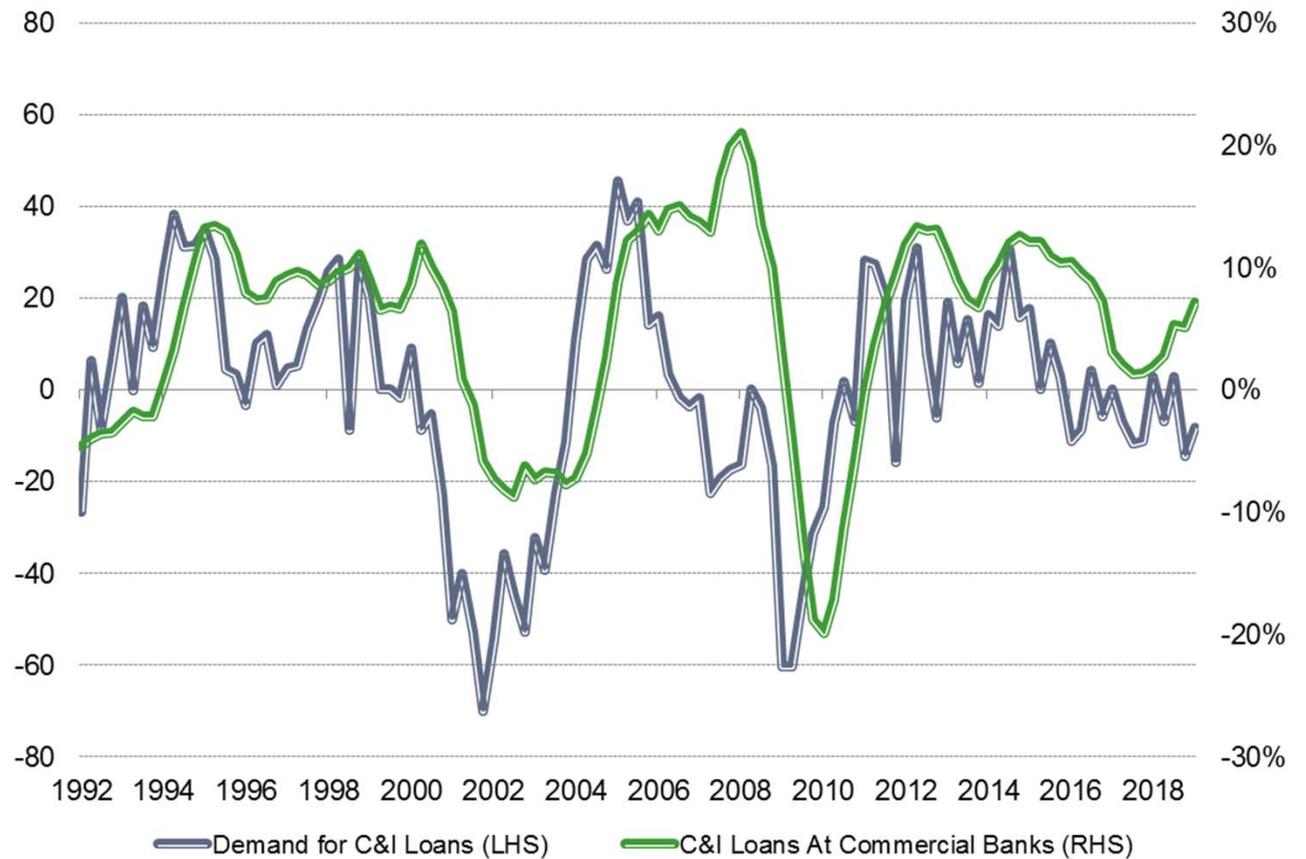
C&I Demand vs. Actual Loans

Actual C&I loans grew 7.2% in Q4 2018 from one year ago. This compares to 5.1% annual growth in the third quarter of this year.

Meanwhile, the net percentage of banks reporting strong demand for C&I loans improved from -14.5% in Q3 to -8.3% in Q4.

Demand vs. Actual C&I Loans

LHS: Net Percentage of Banks Reporting Strong Demand;
RHS: YoY Change in C&I Loans at U.S. Banks



Source: Federal Reserve Board of Governors

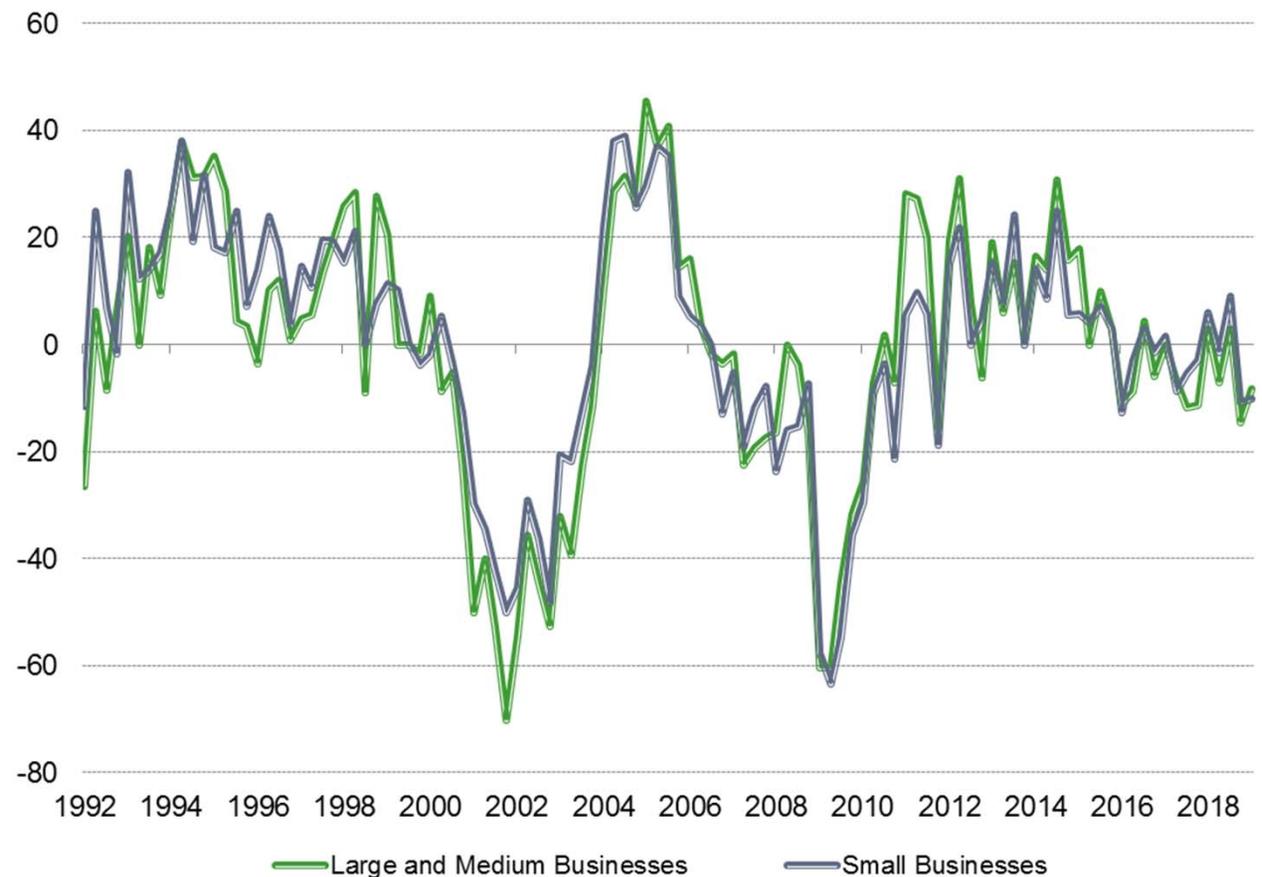
Senior Loan Officer Survey

C&I Loan Demand

Net demand for C&I loans from large and medium businesses weakened, while a moderate net share of banks reported weakened demand from small firms.

A majority of the banks that reported weaker demand indicated that decreases in customers' needs to finance mergers and acquisitions, as well as, investments in plants and equipment contributed to weaker demand, as did a shift in customers' borrowing toward other bank or nonbank sources.

Net Percentage of Banks Reporting Stronger Demand for C&I Loans



Source: Federal Reserve Board of Governors

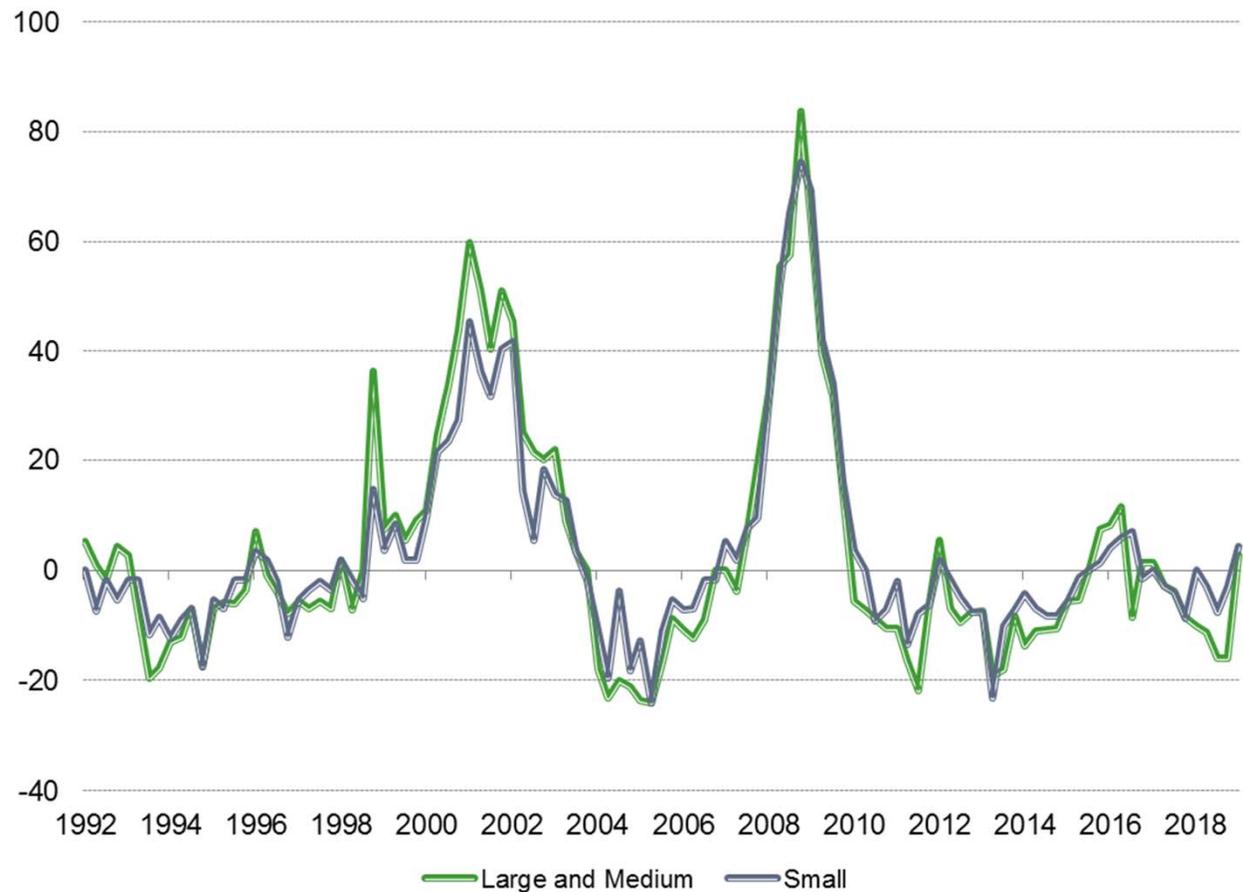
Senior Loan Officer Survey

C&I Loan Standards

Standards on C&I loans tightened from Q3 to Q4 2018.

The percentage of banks tightening standards for large- and medium-sized businesses increased from -15.9% to 2.8%. Similarly, the percentage of banks tightening standards for small businesses rose from -3.1% to 4.3%.

Net Percentage of Banks Tightening Standards of C&I Loans for Businesses



Source: Federal Reserve Board of Governors

Senior Loan Officer Survey

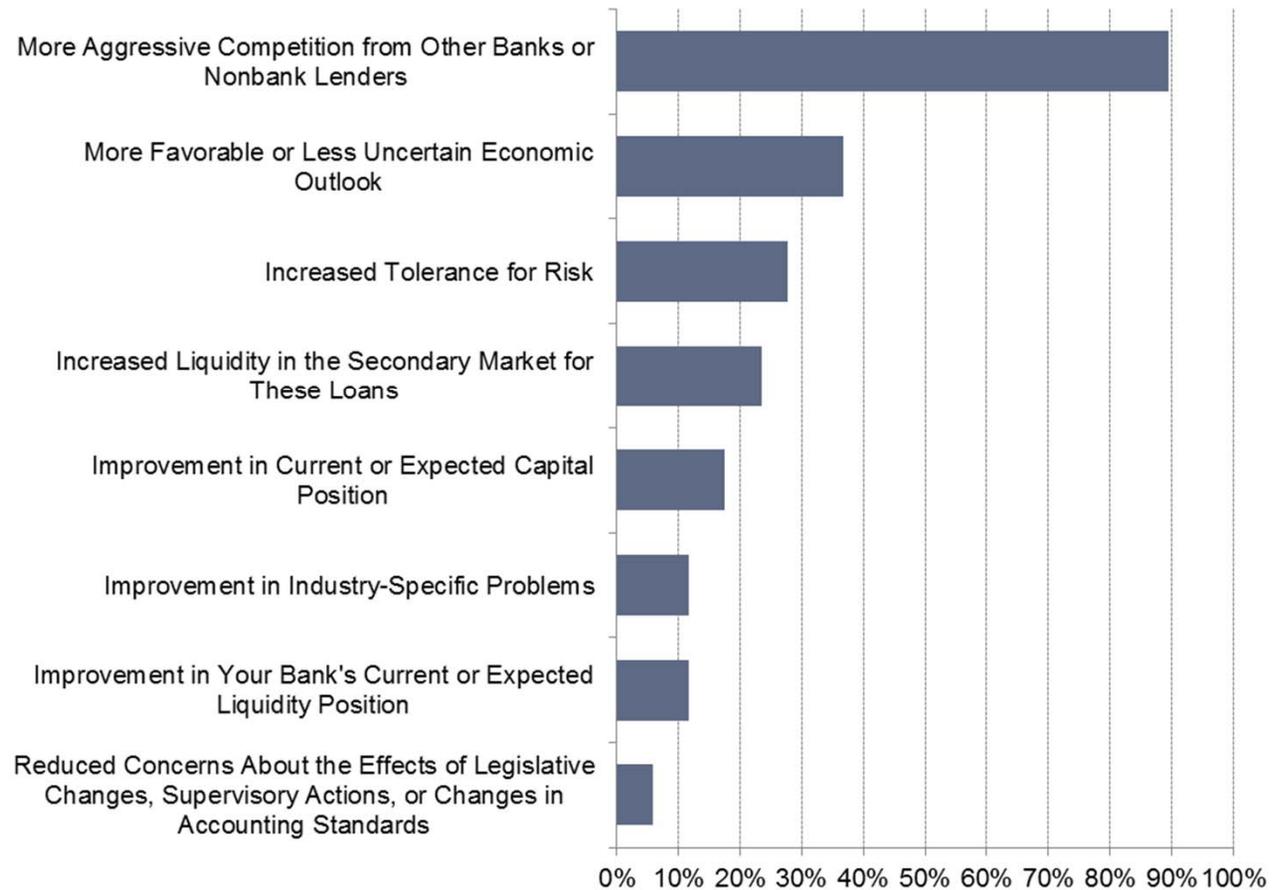
Easing C&I Loan Standards

The number one reason banks cited for easing loan standards was “more aggressive competition from other banks or nonbank lenders,” with 90% of respondents citing this as “somewhat” or “very important.”

The dominant reason for tightening standards was a “less favorable or more uncertain economic outlook” and “worsening of industry-specific problems.”

Reasons for Easing Standards on C&I Loans

Percentage of Banks Citing "Somewhat" or "Very Important"



Source: Federal Reserve Board of Governors

Summary

- By looking at both the Small Business Lending Survey and the Senior Loan Officer Survey, we can see an overall picture of commercial and industrial lending by banks.
- In Q3 2018, small business C&I loan demand weakened. Credit standards remained relatively unchanged with respondents indicating a tightening of lending terms.
- Similarly, the Senior Loan Officer Survey reported weakening loan demand in both Q3 and Q4 2018 for all businesses. Credit standards tightened modestly over the quarter with a less favorable or more uncertain economic outlook the most cited reason for tightening.
- Banks expected standards to tighten, demand to weaken, and loan performance to deteriorate. Banks that expect standards to tighten in 2019 cited an expected deterioration in collateral values as the most cited reason.

Source: Federal Reserve Board of Governors

This and That

The Federal Reserve reported Chapter 12 bankruptcies from farmers throughout the Midwest have reached levels the U.S. has not seen in over ten years. The Seventh Circuit Court of Appeals, which includes Illinois, Indiana, and Wisconsin, had twice the number of bankruptcies in 2018 compared with 2008. In 2018, bankruptcies in three high-production regions in Midwest farm country made up 48% of the U.S. total of chapter 12 bankruptcies versus 37% a decade prior. Rural America has suffered from a multiyear slump in prices for corn, soybeans, and other farm commodities, and this situation has been exacerbated by agricultural competition from Russia and Brazil. Current national trade disputes with major buyers of U.S. farm goods, such as China and Mexico, have also further disturbed agricultural markets and decreased farmers' incomes.

The USDA estimates that the median income for U.S. farm households was negative \$1,548 in 2018. Last year, U.S. farm debt increased to over \$409B, the largest amount in almost forty years and at a level not seen since the 1980s. Loans to fund current operating expenses grew 22% year-over-year nationwide in the fourth quarter to \$58.7B, and the average size of these loans rose to \$74.19K, the highest fourth-quarter level in history.

Source: Federal Reserve, USDA

Economic Data Release Calendar

February 2019

Prior to the weekend, economic data will be released on consumer sentiment.

Following the President's Day holiday on Monday, all eyes will be focused on the FOMC meeting minutes to be released on Wednesday.

February 2019				
Monday	Tuesday	Wednesday	Thursday	Friday
Notes:				1 Employment Total Vehicle Sales ISM Manufacturing Index Construction Spending Consumer Sentiment
4 Factory Orders	5 ISM Non-Manufacturing	6 MBA Mortgage Applications	7 Jobless Claims	8 Wholesale Trade
11	12 JOLTS	13 MBA Mortgage Applications Consumer Price Index	14 Jobless Claims Producer Price Index Final Retail Sales Business Inventories	15 Import Price Index Consumer Sentiment Net TIC Flows
18 President's Day Federal Holiday FHLBC Closed	19 NAHB Housing Market	20 MBA Mortgage Applications Housing Starts FOMC Meeting Minutes	21 Jobless Claims Existing Home Sales	22
25 Chicago Fed Natl Activity Dallas Fed Manufacturing	26 S&P Case-Shiller HPI FHFA House Price Index New Home Sales	27 MBA Mortgage Applications Durable Goods Orders Pending Home Sales	28 Jobless Claims GDP Chicago PMI	Notes:



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